Foreword

Since the 1980s, BCG has been deeply engaged in the mainland China market. BCG’s Consumer Products team has witnessed the rapid growth of China’s consumer packaged goods (CPG), fashion and luxury, and retail markets over four decades. Today, more than 50 of our core experts are active in various industry tracks. We uncover consumer insights and industry trends, and partner with our clients in their growth and transformation.

This year, we are launching a series of articles titled China Consumer Market Quarterly Watch. In this series, we will analyze the industry macro environment and provide forward-looking consumer insights and industry observations. We hope to be a partner in thought as well as in action as company executives lead their firms to new heights.

The Macro Economic Context

On January 17, 2024, China’s National Bureau of Statistics (NBS) released annual macro data 2023. The release shows that the GDP growth rate for 2023 was 5.2%, higher than the previous official forecast of 5.0%, almost in line with the forecast of eight domestic and foreign research institutions (5.19%), and 2.2 percentage points higher than that of 2022. (See Exhibit 1.)

Exhibit 1 - In 2023, China’s GDP Growth Exceeded Official Expectations, in Line with the Average of Eight Institutions

2019–2023 real GDP growth at constant prices, quarterly cumulative year-on-year, fourth quarter of each year for the full year

Sources: National Bureau of Statistics of China; WIND; Bibliography.

Note: Market forecasts come from eight domestic and foreign financial institutions including Goldman Sachs, Morgan Stanley, UBS, CICC, Huatai Securities, Bank of China Research Institute, China Macroeconomic Forum and OECD; Data covers Q1 2019 to Q4 2023.
Total retail sales increased by 7.2% for the year. Based on 2019 absolute values, total retail sales have been climbing in a roundabout manner over the past four years. The numbers for 2023 were moderate, with no uptick observed at the end of the year. The less-than-bullish results, together with the underlying lack of consumer spending confidence, partly echoes the fact that key economic indicators, such as real estate investment and sales, still need to be further repaired. It may also be a market response to the overall low consumer price index (CPI) for 2023, with the risk of deflation still lingering. (See Exhibit 2.)

2024 will continue to be a year of reboot and restoration. Based on the opinions of eight research institutions mentioned in Exhibit 1, the predicted average GDP growth rate in 2024 is 4.68% (in the 4.2% to 5.0% range). However, at the same time, institutional forecasts are mostly “conditional.” For consumer markets, the conditions for high or low growth are concentrated in the real estate sector, international trade, and the degree and speed of improvement in external demand. The volume-price relationship of growth is also affected by inflation rates. For the few institutions that published expected inflation rates, the prediction is well below the 2% mark (a common target of central banks).

Exhibit 2 - Based on 2019, China’s Consumption and Personal Disposable Income Climbed Back in 2023, Housing Sales Tanked

Changes in key economic indicators for each year, quarterly, with 2019 as the base year

Sources: National Bureau of Statistics of China; BCG analysis.
Note: Data covers Q1 2019 to Q4 2023; calculation method: Normalize the four key economic indicators for 2020-2023 based on the absolute quarterly values for 2019. For example, 2019 Q1 zero is RMB 9.8 trillion in absolute value, 2020 Q1 zero is RMB 7.9 trillion in absolute value, based on 2019 with the index of 100, then the 2020 Q1 zero index is 7.9/9.8*100=80.6. Three other categories of economic indicators by analogy.
Online and Offline—Converging in Price Movements

Uneven growth in consumer spending is also shaped by retail developments. In 2023, fast-moving products accounted for about 32.6% of online sales. Advances in e-commerce have shown signs of plateauing and the game is more of a share transfer between different online formats. Approximately 3% went from conventional platforms to live broadcasts and other content-based e-commerce. Price competition for online channels is becoming more heated, while discount stores and warehouse membership stores in offline channels are also on the offensive when it comes to prices.

Together, they shape consumer price expectations for fast-moving consumer products, home goods, electronics, and more. This is also borne out by NBS price data. Prices for food, tobacco and alcohol, household goods and services, and transport and communications products are flat in the 2023 CPI. The supply of standard goods is abundant and the downward movement of the price index increases the “sense of gain” for consumers. At the same time, in fashion, service, and experience sectors, which are relatively non-standard with rebounding demand, consumers are enjoying a feeling of “post-COVID emotional relief” as they continue to spend. (See Exhibit 4.)
**Breaking Out with New Products**

Against this backdrop, the number of new fast-moving products released in 2023 increased significantly compared with previous years. Although the uptake of private (new) brands accelerated considerably, increasing by nearly 50% over the previous year, more than 90% of the uptake was still from CPG brands. This was particularly prominent in personal care and household products. We believe that this goes beyond the efforts of brand companies to broaden their price bands or to conform to segmented consumer needs. It also reveals the use of product updates to create brand momentum and refresh prices and the attempt to resist price pressures on dated products. (See Exhibit 5.)

**Riding Favorable Trends**

The faster-growing sectors in 2023 generally rode trends in functional or emotional benefits and prices, as demanded by consumers. They include long-running consumer mega trends and the emerging ones post-COVID.

In terms of fashion and luxury, BCG made a multi-segment growth forecast in early 2023. While we believe the relative momentum when comparing across segments still holds, the growth rates for mid end was showing signs of tapering in the second half of 2023. (See Exhibit 6.)

Winners in 2023 were the ones who took advantage of persistent trends over recent years. For example, after the rapid adoption of urban light outdoor activities (playing frisbee, camping, biking, etc.), popular during COVID, consumers have also developed interest in, and affinity for, more hard-core categories (skiing, hiking, etc.). Camping, biking, hiking, and water sports saw a surge of 150%-400% in mentions on Xiaohongshu in 2023. The continued development of the sports community has made outdoors an integral part of consumer lifestyle and social expression.

The maturing sector has also grown, with a price band that now includes affordable luxury—despite the availability of cheaper versions. In outdoor apparel, for example, as “new Chinese aesthetics” continue to win over consumers, high-end clothing lines are going mainstream by lending design elements to everyday wear, which consumers are embracing.

On the channel side, in the first half of 2023, sales at outlets nationwide exceeded RMB 130 billion, reaching 62% of the previous year’s full-year level. As of Q3 2023, sales at outlets grew on average 26.3% year-on-year and consumer traffic increased on average by nearly 35% year-on-year, a significant increase over the same period in 2022. All three top outlet brands achieved a threefold increase in consumer traffic and sales performance over the average apparel luxury market growth rates. Some brands are considering offering specific product lines via outlets, rather than just using them as a channel for clearing inventories.
Exhibit 5 - In 2023, the Number of New FMCG Product Launches Significantly Increased, Mainly from Brand Companies

The number of FMCG products launched in 2023 increased by 16% compared to 2022

Private brand accounted for 21.4% of the overall new product launch increment

Sources: GNPD; Globaldata; BCG analysis.

1 New products exclude re-listing items, but include new packaging, new formulation, etc.
2 The FMCG categories are divided into three subcategories, namely food and beverage, personal care and beauty, and household products. Household products include hygienic cleaning, household cleaning, air freshness and other subcategories. Personal care and beauty products include feminine care, skincare, beauty and cavity cleaning.

Exhibit 6 - Market Opportunities Across China’s Apparel Segments

Size of China’s clothing market in 2022: RMB 1.5 trillion

<table>
<thead>
<tr>
<th>Scale</th>
<th>Business</th>
<th>Commute</th>
<th>Leisure</th>
<th>Sport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury</td>
<td>8%</td>
<td>Classic luxury ~RMB 120 billion (8%)</td>
<td>Commuter women’s clothing ~RMB 90 billion (6%)</td>
<td>Premium brands, sports brands, and casual style brands are growth leaders</td>
</tr>
<tr>
<td>Light luxury</td>
<td>2%</td>
<td>Affordable luxury and fashion ~RMB 30 billion (2%)</td>
<td>Casual women’s clothing ~RMB 60 billion (4%)</td>
<td></td>
</tr>
<tr>
<td>Mid to high end</td>
<td>20%</td>
<td>Business men’s clothing ~RMB 40 billion (3%)</td>
<td>Casual men’s clothing ~RMB 15 billion (1%)</td>
<td></td>
</tr>
<tr>
<td>Uni</td>
<td>Mass 70%</td>
<td>Stylized fashion ~RMB 30 billion (2%)</td>
<td>Affordable clothing ~RMB 750 billion (50%)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Private brand ~RMB 240 billion (15%)</td>
<td></td>
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</tbody>
</table>

Sources: Euromonitor; Expert interviews; BCG analysis.

1 Only counting men’s and women’s clothing, no children’s clothing (RMB 0.24 trillion) and underwear (RMB 0.24 trillion). In 2022, the overall size of China’s clothing market was about RMB 2 trillion.
2 Only sportswear, not shoes and equipment.
We believe that the driving force behind outlets’ rise is not just prices, but also the appeal of the offline service experience when consumers are looking for fun and emotional relief. In this regard, travel retail, Hainan duty-free retail, and innovative shopping centers may also lead the pack with new growth opportunities. Restaurant and food services will receive dividends too.

Outlook and Call to Action

Across industries, the theme for this year and beyond will be “achieving excellence in complexity.” But the focus will be different for each sector.

CPG and grocery retail are facing headwinds. Product power and merchandising are becoming increasingly important. Between innovation and cost, companies must own at least one advantage in order to be competitive. Revenue management is also critical, meaning better models and tools are needed to optimize brands, new products, portfolios, prices, promotions, and trade levers. Companies can no longer count on high-certainty traditional business cycles and sheet-based planning. Practices such as the annual JBP and broadstroke resource allocations between headquarters and regions may require examination and transformation.

For the apparel industry, companies were in de-stocking mode in 2023. Companies need to pick a high-speed track—be it an exploding product category or a molded and amplified scenario—and think about the right end-to-end brand image, store image, and merchandise accordingly. In 2024, companies need to continue working on agile supply chains, better merchandising, and improved inventory management.

For the restaurant industry, high-quality expansion poses a challenge to companies’ operating models and capabilities. There are also considerable opportunities for continuous cost reductions in operations, not only in terms of raw material sourcing and people efficiency but also in technology and capability solutions, such as efficient content customization and distribution on the store side with the help of generative AI.

The year 2024 promises to be one of fast tracks and few service stops. Capability upgrades will have to happen as companies strive to transform and improve. We are eager to be a thought and solution partner to companies on this journey.
About the Authors

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